

## State of California

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### Legislative Change No.

**02-16**

Bill Number: AB 2065

Author: Oropeza

Chapter Number: 02-488

Laws Affecting Franchise Tax Board: Revenue and Taxation Code Sections 17052.2, 17276, 17276.3, 18662, 18663, 18668, 19136.8, 19183, 19444, 23457, 24348, 24416, 24416.3, and 24449

Date Filed with the Secretary of the State: September 12, 2002.

**SUBJECT:** Collections/Delinquent Accounts/Suspend Teacher Credit & NOL Deduction/Change Withholding on Sale of Real Estate and Stock Options/Bad Debt Conformity/Penalty Relief

**Assembly Bill 2065 (Oropeza), as enacted on September 12, 2002, made the following changes to California law:**

Section 19444 is added to the Revenue and Taxation Code.

This act authorizes the Franchise Tax Board to forgive any penalties, interest, and fees on unpaid taxes owed by eligible taxpayers to the extent that an underlying tax liability is reduced by an eligible amount, as defined. This provision is operative for the period from October 1, 2002, through June 30, 2003.

Section 17052.2 of the Revenue and Taxation Code is amended.

This act suspends the Teacher Retention Credit for taxable year 2002.

Sections 17276, 17276.3, 24416, and 24416.3 of the Revenue and Taxation Code are amended.

This act would suspend net operating losses (NOLs) deductions for the 2002 and 2003 taxable years. The carryover period for losses incurred in taxable years before January 1, 2002, would be extended by two years. The carryover period for taxable year 2002 would be extended by one year. For taxable years beginning on or after January 1, 2004, the NOL carryover percentage would be 100% of the loss.

Sections 18662 and 19183 of the Revenue and Taxation Code are amended.

This act extends the 3 1/3% withholding requirement to transfers of California real estate by California residents. Individuals, whether residents or nonresidents, would be treated the same. Additionally, this act would create exemptions from withholding for transactions involving like-kind exchanges, involuntary conversions, and loss on the sale of the property. Waivers or reduced withholding in other circumstances are not allowed. For installment sales, this act would allow individuals to elect to compute and remit the withholding as installment payments are received, rather than on the total sales price. The Failure to File a Correct Information Return penalty would be extended to this requirement.

Bureau Director

Jana Howard

Date

September 18, 2002

Sections 18633 and 18668 of the Revenue and Taxation Code and Section 13043 of the Unemployment Insurance Code are amended.

This act increases the rate of withholding to 9.3% for stock options and bonus payments that constitute wages.

Sections 23457, 24348, and 24449 of the Revenue and Taxation Code are amended.

This act conforms California law to federal law with respect to bad debt deduction rules by not allowing the reserve for bad debts method for large banks (including thrift institutions). The alternative minimum tax rules are also adjusted to reflect the elimination of the reserve method. This act would require 50% of the excess reserve (as defined) to be taken into account at the end of the first tax year beginning on or after January 1, 2002.

Section 19136.8 of the Revenue and Taxation Code is amended.

This act would exempt from the underpayment penalty, for any period before April 15, 2003, any additional tax resulting from any tax change enacted in the 2002 calendar year.

Unless otherwise specified, this act is effective and operative January 1, 2002.

This act will not require any reports by the department to the Legislature.